

# Stimulate Energy Lending:

## *Bring the Housing Industry On-Board*

### Overview

Energy lending has reached a high state of development, however these attractive terms are seldom accessed. It is proposed to explore an outreach process that will increase awareness of energy lending, and will include **compelling reasons for home buyers and owners to act on energy awareness**. The assumptions we wish to test are:

1. Housing industry professionals – Bankers, Realtors, Builders, Architects, Building Officials, Appraisers, Energy Raters and Auditors, and others who counsel the home owner or buyer – are key persons to convey messages about energy lending and home energy performance.
2. A publicity event can be structured so that housing professionals convey these messages to the Community they know and serve.
3. A structured publicity event can be replicated at low cost to reach many Communities.

### Rationale

It is desirable to extend energy lending:

- a. Econometric modeling projects a gain of 60,000 jobs in Illinois as we meet energy needs in ways that increase our independence from extracted sources of energy. Efficiency is the most promising way to win this independence.<sup>1</sup>
- b. Secondary lenders, such as Fannie-Mae, underwrite lending risk by pooling mortgages. Managing utility cost reduces risk. Recognizing this, energy lending is available at 0% down payment.<sup>2</sup> Efficiency improvements thereby draw billions of dollars of investment to Illinois from the mortgage funds pool.
- c. Energy lending extends funds for improvements on condition that utility bills are reduced by an amount greater than finance payment. An efficient house is more affordable.
- d. Substantial energy use reduction can be realized by selecting improvements that have proven to be effective for each of the 20 ways that energy is used in the home. See attached sample Energy Improvement Analysis.
- e. An owner realizes monthly positive cash flow (above) with very little ‘front end’ cost. Earnings, which are cash free, are often higher than the 1992-2000 ‘boom’ stock market. See attached CHECK Affordability analysis.
- f. Owners will increase their security because an efficient home has a higher sales value.<sup>3</sup>
- g. Managing utility bills ‘hedges’ risk of energy rate instability. (follow-up to The Appraisal Journal article ‘Rational Valuation of Home Energy Efficiency’ includes analysis that characterizes investments as ‘negative risk.’)
- h. Efficiency contributes to improved comfort, resident’s health and safety, and durability.<sup>4</sup>

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<sup>1</sup> See *American Council for an Energy Efficient Economy*, publication E982 at [www.aceee.org](http://www.aceee.org). Also see [www.eren.doe.gov/cities\\_counties/elecjob.html](http://www.eren.doe.gov/cities_counties/elecjob.html)

<sup>2</sup> See [www.natresnet.org/resources/lender/](http://www.natresnet.org/resources/lender/)

<sup>3</sup> Study of 4,500 home sales reveals that each \$100 decrease in yearly utility cost is accompanied by \$1,100 to \$2,200 **higher sale price**. See “[Evidence of Rational Market Valuations for Home Energy Efficiency](#),” published in *The Appraisal Journal*, at [www.natresnet.org/herseems/appraisal.htm](http://www.natresnet.org/herseems/appraisal.htm).

- i. Improved housing energy performance will reduce pollution. Energy use in homes accounts for more NO<sub>2</sub> than cars. NO<sub>2</sub> remains in the atmosphere the longest (150 years) of any of major contaminants of concern.<sup>5</sup> Residential electricity use triggers SO<sub>2</sub>, CO<sub>2</sub>, Mercury, etc. from carbon-based generation.<sup>6</sup> Energy lending reduces pollution at essentially no cost to the State or to industry.
- j. Various methods have been employed to stimulate energy lending. Methods with primary focus on advertising have been costly when compared to results. It is possible that the proposed method will prove to be of least cost when measured against results.
- k. State government can 'lead' the establishment of a connection between the source of energy lending benefits and the citizens and homeowners of Illinois.

### **Details of Stimulating Energy Lending**

The assets required are in place:

- I. Highly capable housing industry professionals,
- II. News media,
- III. Home energy rating software and rater training and certification,
- IV. Public relations (PR) professionals.

It is proposed to develop a 'package' for use by PR firms with the objective to stage a 'media event.' The package will focus to:

- A. Organize housing professionals and media in a community (say, Kankakee, IL) to participate. An orientation provided at the scheduled meeting of an association of one of the above stakeholders, such as the Realtors Association, to which other stakeholders are invited, is a suggested strategy.
- B. Work with local media to manage the message that will come from the media event. For example, the Chair of the local Lenders Association may say, "(I or We) Lenders strongly encourage homeowners and buyers to take advantage of home energy performance." Or a local Appraiser may say, "Study of 4,500 home sales shows that efficiency improvements can recover more than they cost to install through higher home sales value. And we observe that houses with lower utility bills sell faster, and at better prices, in our Community."
- C. Support the media event with graphics, testimonials from builders who offer home performance, satisfied homeowners, etc. Work with the 'EMCEE' of the event, ideally a stakeholder, and assist media reporters and writers in developing their story. An objective is to receive 'front page coverage.'

Within the above work, it is important to clearly illustrate to stakeholders how home energy performance and energy lending serves their interests. It can be shown that energy lending will improve the bottom line of all stakeholders, and it is suggested that this be the key focus (an informal estimate of benefits to various stakeholders is provided in Energy Efficient Mortgages (EEMs) in Illinois, John Porterfield, 1990, unpublished).

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<sup>4</sup> See 'House as a System' information at [www.affordablecomfort.org](http://www.affordablecomfort.org), and No Regrets Remodeling, Home Energy Press, 1998?, order at [www.homeenergy.org](http://www.homeenergy.org).

<sup>5</sup> ?? World at Risk, Hendon, Wiley Interscience, 1995

<sup>6</sup> See "Coal - America's Past, America's Future" Tellus Institute, [www.tellus.org](http://www.tellus.org), publications

It is important to align public officials, housing advocates, and others such as environmental and economic development advocates with the event. There may be no direct economic advantage to these parties, so the package will have the capacity to address interests such as:

- Access to housing,
- Jobs,
- Fire safety aspects of home performance,
- Clean environment

### **Program Evaluation**

Measuring the reduction in pollution, or change in Illinois employment, expected to result from stimulating energy lending is challenging. Other means to evaluate the proposed work can be more straightforward:

- i. Home loans are ‘tagged’ if written to energy lending terms. Current data would permit an increase of energy lending to be observed.
- ii. Utility bills document a change in energy use and cost associated with funded work. Statistical study can show changes from study of a sample of houses.
- iii. How people feel about energy lending and energy performance can be accessed with surveys. Recent work suggests that, with new products and services, one-on-one focus groups provide greater reliability, and deeper insight, than customary ‘focus groups.’ One-on-one sessions are also less costly.<sup>7</sup>

Short-term and multi-year evaluation is proposed (see Budget).

### **Summary**

Proposed work intends to supply critical links that may stimulate energy lending. The approach relies heavily on concept of tapping existing community assets.<sup>8</sup>

- a) Interaction that focuses on home energy performance is created among residents of a community who enjoy long-standing trusting relationships – perhaps through friendship, family, religious congregation, employment, etc.
- b) State Assets – experience of Energy Wise Home Program<sup>9</sup> Administrators, in-place energy rating capacity, etc.
- c) Support Assets – Many support assets will be required, and many are at hand. For example, a robust response to ‘Stimulating Energy Lending’ will require more workers with energy rating and energy improvement installation skills. Community Colleges, Technical, and Trade schools have the capacity to meet these needs.

Stimulating energy lending as proposed is perhaps the ‘least cost approach.’ The inherent ‘community focus’ of this approach means that, once a basic publicity support design is in place, the concept can be tested on a limited basis to study its effectiveness (see Preliminary Budget).

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<sup>7</sup> How Customers Think, Zaltman, Harvard Business School Press, 2003

<sup>8</sup> “Hidden Assets,” Scott Bernstein, Center for Neighborhood Technology, see at [www.cnt.org](http://www.cnt.org).

<sup>9</sup> [www.energywisehomes.org](http://www.energywisehomes.org).

## Preliminary Budget

Note that no budget research has been performed. Each Activity will require the development of a detailed description. These figures have not been verified for accuracy in any way and are offered only for purpose of discussion.

<b>Activity</b>	<b>Suggested Amount</b>
Develop overall package design – perhaps with design ‘Charrets’	30,000
Develop preliminary text, graphics, media support to be used in focus work	30,000
Develop ‘stakeholder’ focus group process.	15,000
Conduct stakeholder focus sessions (South, Middle, Northern, Metro-area)	40,000
Conduct one-on-one stakeholder focus sessions – 3 each for lender/realtor/builder, and 1 each for building official, architect, energy contractor, mayor, environment advocate, homebuyer, econ. devt. advocate	10,000
Based on focus group input, revise and raise text, graphics, media to production quality.	35,000
Produce a ‘dry run’ video of process w/ focus group at one location	5,000
Refine material based on dry run.	5,000
Bid, orient, and initiate agreements with PR firms - the following work done by/with selected PR firms	5,000
Contact as many as five locations to initiate the process	5,000
Work with first two locations to respond.	5,000
Focus on factors that led to action of 2 communities and focus on factors that could have been obstacles to action among the other 3.	5,000
Proceed with event for 2	5,000
Measure immediate results for two locations	5,000
<b>Total if it is clear that this process is not effective.</b>	<b>200,000</b>
Two year results for two locations	10,000
Based on immediate results from two locations and feedback from other three locations, refine package.	10,000
Extend test to three additional locations	10,000
Measure immediate, one year, and two year results for 3 other locations	10,000
<b>Additional to expand exploration by 150%</b>	<b>40,000</b>
<b>Additional to develop and license the ‘Stimulate Energy Lending’ package for distribution.</b>	<b>35,000</b>

It is felt that the proposed package can be ‘delivered’ to a community by a Public Relations or other communications and community expert for \$3,000 to \$5,000 per community. If this activity is successful in stimulating energy lending, it is possible that this approach will cost from \$1 to \$5 per household.